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THE HARTFORD
1973 Annual Report



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Hartford Fire Insurance Company and Subsidiaries Consolidated

**A Subsidiary of
International Telephone and Telegraph Corporation**



Review of 1973 and Highlights

The Hartford's premium income from casualty operations grew 7.5% even though the year was marked by severe competition. Written premiums were \$1.73 billion compared with \$1.61 billion in 1972. Premium income for life, annuity and health insurance climbed 24.8% to \$242.5 million, bringing the company's total premium income for 1973 to a record \$1.98 billion. Individual and group life insurance sales increased to \$1.59 billion in face value, also a record.

Consolidated net income of \$124.8 million was 1.3% below the all-time high achieved last year, making 1973 the second best year in the company's history.

An after-tax casualty underwriting loss of \$20.1 million was sustained in 1973 compared with a profit of \$0.7 million in 1972. The combined loss and expense ratio, after policyholder dividends, increased to 102.7% from 99.5% the previous year.

Rising inflation, particularly as it influenced the cost of automobile repairs and medical care, and the lack of general rate increases, led to this down-turn in underwriting experience for The Hartford. Other contributing factors were unsatisfactory results in medical malpractice

	1973	1972
Written Premiums, Property and Liability	\$1,733,173,000	\$1,612,644,000
Premium Income, Life Operations	\$ 242,470,000	\$ 194,339,000
Consolidated Net Operating Income	\$ 87,110,000	\$ 84,591,000
Net Realized Investment Gains (After Tax)	\$ 37,699,000	\$ 41,801,000
Consolidated Net Income	\$ 124,809,000	\$ 126,392,000

and mass merchandising insurance. Constructive programs have been introduced to improve both areas.

Net operating income of \$87.1 million was up 3.0% from the 1972 level of \$84.6 million. Investment income after taxes rose 24.8% to \$98.5 million, a record for the company. Life net operating income was up 63.7% to \$10.7 million, also a record. Net realized investment gains after taxes included in net income declined to \$37.7 million, 9.8% less than in 1972 — a reflection of the decline in stock prices.

Because catastrophe losses for the year were less than expected, \$2.3 million was added to the catastrophe reserve in accordance with the formula previously established. This brings the catastrophe reserve to \$16.0 million.



New Office of the President—Operations includes President Herbert P. Schoen (seated) and three executive vice presidents, who are (from left): DeRoy C. Thomas, William M. Griffin and Raymond H. Deck.

To help our personal automobile policyholders during the gasoline shortage, The Hartford has taken several significant steps. In December we announced a plan for possible premium refunds on a state-by-state basis in 1974. Where circumstances, law and regulations permit, the company will refund to 1974 personal auto policyholders any underwriting profits exceeding the normal pre-tax rate of 5% allowed in the premium for profit and contingencies.

Since then the company has introduced in most states another plan designed to cut auto insurance premiums by as much as 18% for

drivers who make significant reductions in their commuting mileage by joining car pools or switching to mass transportation.

We are also continuing to press for state-by-state adoption of no-fault auto insurance to expedite the equitable payment of benefits to the public and to help hold insurance costs down. Inherent in all of these actions is the philosophy that The Hartford has a strong obligation to give its agents and policyholders the best possible protection and service under all circumstances.

In response to the demands of marketing an increasing diversity of products, an Office of the President — Operations was formed. Joining Mr. Schoen in this office are Raymond H. Deck, William M. Griffin and DeRoy C. Thomas, each of whom was elected an executive vice president.

The directors and officers wish to express their appreciation for the loyalty of thousands of independent agents and brokers who made possible the company's new sales records and for the performance of the company's 18,000 employees in a year characterized by unusual market and economic conditions.

Harry V. Williams
Chairman

Herbert P. Schoen
President and Chief Executive Officer

Five Year Summary

Dollar figures in thousands

	1973	1972
Property and Liability		
Statutory Underwriting Income	\$(40,973)	\$(10,800)
Dividends to Policyholders	(11,420)	(8,062)
Prepaid Acquisition Expense	13,690	20,270
Adjusted Underwriting Income	(38,703)	1,408
Investment Income		
(Excluding Realized Investment Gains)	107,504	89,396
Other Income (Deductions)		
(Including Past Service Pension Cost)	(4,806)	(4,292)
Operating Income Before Income Tax	63,995	86,512
Federal and Foreign Income Tax on:		
Investment Income	8,972	10,426
Other Operating Income	(21,353)	(1,947)
Net Operating Income—Property and Liability	76,376	78,033
Life		
Operating Income Before Income Tax	8,801	7,562
Federal and Foreign Income Tax	(1,933)	1,004
Net Operating Income—Life	10,734	6,558
Consolidated		
Net Operating Income	87,110	84,591
Net Realized Investment Gains (After Tax)	37,699	41,801
Extraordinary Income		
(Benefit from Tax Loss Carryovers)	—	—
Net Income	\$124,809	\$126,392



1971	1970	1969
\$ (57)	\$(28,884)	\$(22,299)
(6,889)	(6,248)	(4,785)
15,071	21,464	11,687
8,125	(13,668)	(15,397)
77,535	74,872	65,772
(6,267)	(3,277)	(6,999)
79,393	57,927	43,376
12,793	14,493	13,124
1,140	(8,410)	(11,097)
65,460	51,844	41,349
5,533	4,438	1,489
1,548	2,233	1,742
3,985	2,205	(253)
69,445	54,049	41,096
36,045	33,811	8,015
—	—	1,063
\$105,490	\$87,860	\$50,174

Premium Distribution

Net Written Premiums—Property and Liability

<i>Dollar figures in thousands</i>	1973	1972	1971	1970	1969
Fire and Allied Lines	\$ 164,671	\$ 173,574	\$ 158,814	\$ 152,369	\$ 128,196
Homeowners Multi-Peril	133,889	119,268	98,616	95,536	79,782
Commercial Multi-Peril	158,181	132,025	108,668	63,483	47,641
Inland Marine	57,664	53,686	47,691	46,675	38,296
Ocean Marine	24,672	23,815	22,186	21,216	18,804
Fidelity and Surety	28,967	29,434	29,946	24,778	24,552
Automobile	625,148	598,518	550,516	492,385	401,339
Workmen's Compensation	306,213	262,576	219,313	172,854	144,241
General Liability	183,291	173,284	156,837	126,228	91,058
All Other Lines	50,477	46,464	21,491	17,297	32,608
Total	\$1,733,173	\$1,612,644	\$1,414,078	\$1,212,821	\$1,006,517
% Increase over Prior Year	7.5	14.0	16.6	20.5	12.0

Life Operations

<i>Dollar figures in thousands</i>	1973	1972	1971	1970	1969
Premium Income					
Individual Life	\$ 35,029	\$ 30,884	\$ 26,404	\$ 23,259	\$ 21,495
Individual Health	12,521	11,020	10,146	11,899	4,355
Group Life	19,826	16,377	15,680	12,155	10,936
Group Health	107,407	96,071	82,069	62,958	43,414
Group Annuities	26,540	18,071	13,285	10,939	8,705
Variable Annuity Company	41,147	21,916	—	—	—
Total	\$ 242,470	\$ 194,339	\$ 147,584	\$ 121,210	\$ 88,905
% Increase over Prior Year	24.8	31.7	21.8	36.3	16.5
New Life Insurance Sales					
Individual	\$ 630,923	\$ 532,629	\$ 305,139	\$ 203,491	\$ 177,136
Group	962,288	534,173	338,699	278,628	324,575
Total	\$1,593,211	\$1,066,802	\$ 643,838	\$ 482,119	\$ 501,711
% Increase over Prior Year	49.3	65.7	33.5	(3.9)	14.0
Life Insurance in Force					
Individual	\$2,070,089	\$1,684,086	\$1,407,694	\$1,220,518	\$1,140,836
Group	3,683,540	2,748,751	2,330,747	1,938,554	1,719,755
Total	\$5,753,629	\$4,432,837	\$3,738,441	\$3,159,072	\$2,860,591
% Increase over Prior Year	29.8	18.6	18.3	10.4	15.5

Underwriting Experience Summary--Property & Liability



	1973	1972	1971	1970	1969
Fire and Allied Lines					
Loss Ratio	53.2%	46.7%	57.0%	56.7%	59.7%
Expense Ratio	40.3	37.6	37.5	37.4	38.8
Combined Ratio	93.5	84.3	94.5	94.1	98.5
Homeowners Multi-Peril					
Loss Ratio	60.6	55.7	63.3	68.9	66.5
Expense Ratio	34.2	33.2	35.7	35.7	36.4
Combined Ratio	94.8	88.9	99.0	104.6	102.9
Commercial Multi-Peril					
Loss Ratio	61.2	59.2	55.4	53.4	54.0
Expense Ratio	34.0	31.9	31.3	35.6	38.3
Combined Ratio	95.2	91.1	86.7	89.0	92.3
Inland Marine					
Loss Ratio	63.9	54.9	66.1	56.7	66.4
Expense Ratio	35.1	35.5	34.7	34.6	35.8
Combined Ratio	99.0	90.4	100.8	91.3	102.2
Ocean Marine					
Loss Ratio	67.4	76.5	75.0	80.9	72.8
Expense Ratio	28.4	28.4	25.4	27.7	28.0
Combined Ratio	95.8	104.9	100.4	108.6	100.8
Fidelity and Surety					
Loss Ratio	38.3	50.6	45.0	38.8	39.2
Expense Ratio	51.1	43.0	43.7	44.2	45.2
Combined Ratio	89.4	93.6	88.7	83.0	84.4
Automobile					
Loss Ratio	74.3	72.5	72.5	77.0	76.5
Expense Ratio	30.2	29.5	28.9	29.9	29.9
Combined Ratio	104.5	102.0	101.4	106.9	106.4
Workmen's Compensation					
Loss Ratio	77.7	81.0	76.3	70.6	66.4
Expense Ratio	22.0	22.1	21.6	22.6	22.6
Combined Ratio	99.7	103.1	97.9	93.2	89.0
General Liability					
Loss Ratio	92.9	86.9	73.1	69.3	70.0
Expense Ratio	29.0	28.2	27.9	29.8	32.5
Combined Ratio	121.9	115.1	101.0	99.1	102.5
All Other Lines					
Loss Ratio	63.5	65.8	54.6	56.9	62.2
Expense Ratio	28.0	27.0	29.4	34.3	33.5
Combined Ratio	91.5	92.8	84.0	91.2	95.7
Total All Lines					
Loss Ratio	71.3	69.2	68.5	69.1	68.7
Expense Ratio	30.7	29.8	29.7	31.1	31.9
Combined Ratio	102.0	99.0	98.2	100.2	100.6
Combined Ratio After Allowance for Dividends to Policyholders	102.7	99.5	98.7	100.7	101.1

Loss Ratio — Losses and Loss Expenses related to Premiums Earned

Expense Ratio — Expenses related to Premiums Written

Investment Statements-- Property and Liability

Distribution of Investment Portfolio

	1973			1972		
	Book Value ¹	Market Value	%	Book Value ¹	Market Value	%
<i>Dollar figures in thousands</i>						
Bonds:						
U.S. Government	\$ 2,486	\$ 2,374	.1	\$ 2,634	\$ 2,571	.1
New Housing Authority	21,549	19,219	.7	31,225	29,728	1.2
Other Governments (Canada, etc.)	5,116	4,744	.2	10,952	10,282	.4
State, County and Municipal	1,316,253	1,291,780	51.6	1,086,895	1,073,216	43.1
Other	150,025	146,092	5.8	188,039	185,666	7.5
Total Bonds	1,495,429	1,464,209	58.4	1,319,745	1,301,463	52.3
Preferred Stocks:	67,595	65,304	2.6	16,301	17,234	.7
Common Stocks:						
Public Utility	177,500	154,754	6.2	178,468	215,294	8.6
Bank and Insurance Companies	71,500	116,990	4.7	74,658	138,292	5.6
Industrial and Miscellaneous	569,370	628,444	25.1	491,045	752,561	30.2
Total Non-Affiliated Companies	818,370	900,188	36.0	744,171	1,106,147	44.4
Non-Consolidated Subsidiaries	37,308	76,141	3.0	37,308	65,412	2.6
Total Common Stocks	855,678	976,329	39.0	781,479	1,171,559	47.0
Total Stocks	923,273	1,041,633	41.6	797,780	1,188,793	47.7
Total Bonds and Stocks	\$2,418,702	\$2,505,842	100.0	\$2,117,525	\$2,490,256	100.0

1. Book value of bonds is amortized cost. Book value of stocks is cost.

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Maturity Distribution (Par Value)

	1973	%	1972	%
<i>Dollar figures in thousands</i>				
Maturities within 1 year	\$203,072	13.0	\$326,820	23.6
Maturities from 1 to 5 years	110,356	7.1	85,691	6.2
Maturities from 5 to 10 years	121,440	7.8	120,029	8.7
Maturities from 10 to 20 years	347,298	22.1	339,225	24.4
Maturities over 20 years	782,955	50.0	515,451	37.1

Investment Statements-- Property and Liability



Investment Income (Excluding Realized Investment Gains)

<i>Dollar figures in thousands</i>	1973	1972	1971	1970	1969
Interest on Bonds and Mortgages:					
Taxable	\$ 12,987	\$ 15,804	\$ 18,705	\$ 22,273	\$ 22,410
Tax-exempt	58,115	41,264	31,880	23,382	18,420
Total	71,102	57,068	50,585	45,655	40,830
Dividends on Stocks:					
Preferred	2,264	279	200	212	134
Common	32,331	30,001	24,947	26,877	24,615
Total	34,595	30,280	25,147	27,089	24,749
Income from Real Estate and Miscellaneous Interest	21,687	30,333	27,663	24,702	20,967
Total Investment Income	127,384	117,681	103,395	97,446	86,546
Expenses:					
Real Estate Taxes, Expenses and Depreciation	15,308	23,557	21,453	18,726	17,105
Connecticut Tax on Investment Income	2,350	2,411	2,503	2,044	2,033
Other Investment Expenses	2,222	2,317	1,904	1,804	1,636
Total	19,880	28,285	25,860	22,574	20,774
Investment Income Before Federal and Foreign Income Tax	107,504	89,396	77,535	74,872	65,772
Federal and Foreign Income Tax	8,972	10,426	12,793	14,493	13,124
Net Investment Income	\$ 98,532	\$ 78,970	\$ 64,742	\$ 60,379	\$ 52,648

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Net Security Purchases

<i>Dollar figures in thousands</i>	1973	1972	1971	1970	1969
Bonds:					
U.S. Government	\$ (151)	\$ (3,080)	\$ (12,614)	\$ (39,763)	\$ (740)
New Housing Authority	(472)	(100)	—	(1,153)	(808)
State and Municipal	232,358	276,178	130,686	217,966	(3,276)
Other	(57,939)	(102,063)	36,257	(23,302)	47,954
Total Bonds	173,796	170,935	154,329	153,748	43,130
Stocks:					
Common					
Public Utility	356	30,673	30,733	(10,357)	2,825
Bank and Insurance Companies	(13,968)	(5,089)	8,480	380	(1,722)
Industrial	30,957	9,236	63,869	11,670	21,282
Total Common	17,345	34,820	103,082	1,693	22,385
Total Preferred	51,236	12,487	356	1,130	812
Total Stocks	68,581	47,307	103,438	2,823	23,197
Total Bonds and Stocks	\$242,377	\$218,242	\$257,767	\$156,571	\$ 66,327

Consolidated Balance Sheet

Dollar figures in thousands

	December 31, 1973	December 31, 1972
Assets		
Bonds, at amortized cost, (Market Value \$1,464,209 and \$1,301,463)	\$1,495,429	\$1,319,745
Stocks, at cost, (Market Value \$965,492 and \$1,123,381)	885,965	760,472
Investments in Life Insurance Subsidiaries, at equity	76,141	65,412
Real Estate and Mortgages	78,481	73,620
Cash	26,712	24,662
Deposits and Equities in Underwriting Associations	45,616	37,836
Accounts and Notes Receivable	396,353	357,479
Prepaid Acquisition Expense	212,838	199,148
Other Assets	45,209	45,152
Total Assets	\$3,262,744	\$2,883,526
Liabilities		
Unpaid Loss and Loss Expense	\$1,493,088	\$1,240,337
Unearned Premiums	796,359	769,278
Accounts Payable and Accrued Expenses	111,086	96,130
Deferred Income Taxes	112,926	104,306
Total Liabilities	2,513,459	2,210,051
Stockholders' Equity		
Common Stock:		
Authorized 40,000,000 shares, \$2.50 par value		
Issued 22,000,000 shares	55,000	55,000
Capital Surplus	27,264	27,264
Retained Earnings	673,824	598,014
Treasury Stock, at cost (222,664 shares)	(6,803)	(6,803)
Total Stockholders' Equity	749,285	673,475
Total Liabilities and Stockholders' Equity	\$3,262,744	\$2,883,526

The accompanying Notes to Financial Statements are an integral part of the above statement.



Consolidated Statement of Income

Dollar figures in thousands

	1973	1972
Written Premiums	\$1,733,173	\$1,612,644
Change in Unearned Premium Reserve	27,081	83,577
Earned Premiums	1,706,092	1,529,067
Losses Incurred	1,065,408	925,461
Loss Expense Incurred	150,424	133,483
Commissions to Agents	293,982	271,044
Other Underwriting Expenses	179,744	158,504
Taxes, Licenses and Fees (Excluding Income Tax)	57,507	51,375
Statutory Underwriting Income (Loss)	(40,973)	(10,800)
Dividends to Policyholders	(11,420)	(8,062)
Prepaid Acquisition Expense	13,690	20,270
Adjusted Underwriting Income (Loss)	(38,703)	1,408
Investment Income (Excluding Realized Investment Gains)	107,504	89,396
Other Income (Deductions) (Including Past Service Pension Cost)	(4,806)	(4,292)
Property and Liability Operating Income Before Income Tax	63,995	86,512
Federal and Foreign Income Tax on:		
Investment Income	8,972	10,426
Other Operating Income	(21,353)	(1,947)
Property and Liability Operating Income	76,376	78,033
Life Income Before Income Tax	8,801	7,562
Federal and Foreign Income Tax	(1,933)	1,004
Life Operating Income	10,734	6,558
Net Operating Income	87,110	84,591
Net Realized Investment Gains (After Tax)	37,699	41,801
Net Income	\$ 124,809	\$ 126,392

The accompanying Notes to Financial Statements are an integral part of the above statement.

Consolidated Statement of Retained Earnings

<i>Dollar figures in thousands</i>	1973	1972
Balance—Beginning of Year	\$598,014	\$520,621
Net Income	124,809	126,392
Dividends	(48,999)	(48,999)
Balance—End of Year	\$673,824	\$598,014

Consolidated Statement of Capital Surplus

<i>Dollar figures in thousands</i>	1973	1972
Balance—Beginning of Year	\$ 27,264	\$ 22,514
Contribution of Capital Stock of Hartford Variable Annuity Life Insurance Company by Parent	—	4,750
Balance—End of Year	\$ 27,264	\$ 27,264

12 Consolidated Source and Application of Funds

<i>Dollar figures in thousands</i>	1973	1972
Source of Funds:		
Net Income	\$124,809	\$126,392
Unpaid Loss and Loss Expense	252,751	240,409
Unearned Premiums	27,081	83,577
Sale of Bonds (Other than Temporary Investments)	75,054	290,701
Temporary Bond Investments, Net	123,767	56,162
Sale of Stocks	35,344	34,303
Deferred Income Taxes	8,620	20,234
Accounts Payable and Accrued Expenses	14,956	(28,643)
Total	\$662,382	\$823,135
Application of Funds:		
Purchase of Bonds (Other than Temporary Investments)	\$374,505	\$513,570
Purchase of Stocks	160,837	139,519
Dividends Paid	48,999	58,799
Accounts and Notes Receivable	38,874	53,220
Prepaid Acquisition Expense	13,690	20,270
Other, Net	25,477	37,757
Total	\$662,382	\$823,135

The accompanying Notes to Financial Statements are an integral part of the above statements.



Notes to Financial Statements

I ACCOUNTING POLICIES

(a) The consolidated financial statements have been prepared on the basis of generally accepted accounting principles and differ in certain material respects from accounting prescribed by state regulatory authorities. Under generally accepted accounting principles, stocks are carried at cost rather than current market values, prepaid acquisition expense and non-admitted assets are recorded, and statutory reserves are restored to equity. The consolidated financial statements include the accounts of all subsidiaries after including the life insurance subsidiaries on an equity basis.

(b) The Hartford invests in common and preferred stocks to produce earnings from a combination of dividends and appreciation. The Hartford believes that stockholders are entitled to participate currently in the earnings generated by appreciation. Since present accounting rules require the sale of securities in order to record such earnings, The Hartford sells securities (on a specific cost identification basis) to realize investment gains. The amount of investment gains to be realized for the year was determined as of September 30, 1973 on the basis of an appropriate historical rate of return on the Company's portfolio of stocks.

Unrealized appreciation in The Hartford's securities portfolio (net of applicable income taxes) was \$36,797,000 at December 31, 1973 and \$244,221,000 at December 31, 1972.

(c) During 1973 and 1972, The Hartford provided \$2,300,000 and \$4,450,000, respectively,

(\$1,196,000 and \$2,314,000 net of income tax) out of current income, as a reserve for major catastrophe losses. When such losses occur in excess of those normally anticipated, a charge will be made against the reserve provided.

The Financial Accounting Standards Board is currently considering the general acceptance of such reserves, and the resolution of the issue could lead to changes in the practice currently followed by The Hartford.

(d) The cost of acquiring new business is amortized over the policy terms for casualty and health insurance.

(e) Unearned premium reserves are calculated principally by the application of monthly pro rata fractions for the unexpired terms of policies in force.

(f) The Hartford has non-contributory retirement and death benefit plans for its employees. Costs of such plans are provided in accordance with actuarial determinations and past service costs of the plans are amortized over various periods, the maximum being forty years. Total pension expense amounted to \$13,074,000 for 1973 and \$12,513,000 for 1972. Pension costs are funded through contributions to trust funds and purchase of group annuity contracts. The actuarial value of vested benefits exceeded the related pension assets by approximately \$50,000,000 at December 31, 1973.

II INCOME TAXES

The Hartford is included in ITT's consolidated United States Federal Income Tax Return and remits to (or receives from) ITT the income taxes currently payable (or recoverable). An analysis of the provision for income taxes, excluding taxes on operating income of life insurance subsidiaries, is as follows:

	1973	1972
Tax on Income from Operations:		
Current tax provision (benefit) on—		
United States operating losses	\$ (24,324,000)	\$ (14,387,000)
Foreign income	2,631,000	1,527,000
	(21,693,000)	(12,860,000)
Deferred United States tax provision	9,312,000	21,339,000
	<u>\$ (12,381,000)</u>	<u>\$ 8,479,000</u>
Income Taxes—		
Consolidated Income Statement	<u>\$ (12,381,000)</u>	<u>\$ 8,479,000</u>
Tax on Realized Investment Gains:		
Current tax provision	\$ 21,033,000	\$ 20,178,000
Deferred United States tax benefit	(692,000)	(1,105,000)
	<u>\$ 20,341,000</u>	<u>\$ 19,073,000</u>
Income Taxes—Realized Investment Gains	<u>\$ 20,341,000</u>	<u>\$ 19,073,000</u>

Notes to Financial Statements

Deferred income taxes arise principally from the following sources:

	<u>1973</u>	<u>1972</u>
Prepaid acquisition expenses deducted in tax return and deferred in financial statements	\$6,571,000	\$ 9,730,000
Premiums considered unearned in tax return and earned in financial statements	3,220,000	3,701,000
Utilization of net operating loss carryforward	—	6,540,000
All other items, net	(1,171,000)	263,000
	<u>\$8,620,000</u>	<u>\$20,234,000</u>

A reconciliation of the effective tax rate of The Hartford to an arbitrarily selected 48% United States tax rate, after excluding the equity in the earnings of life insurance subsidiaries, is as follows:

	<u>1973</u>	<u>1972</u>
Effective income tax rate, after consideration of 48% rate principally applicable to underwriting losses of \$38,703,000 in 1973	6.5%	18.7%
Tax exempt interest income	22.8	13.4
Dividends received deduction	11.5	8.3
Capital gains benefit	6.2	6.9
All other items, net	1.0	.7
United States normal and surtax rate	<u>48.0%</u>	<u>48.0%</u>

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III LIFE INSURANCE SUBSIDIARIES

The underlying life insurance subsidiaries' financial statements are prepared in accordance with generally accepted accounting principles. Life insurance premiums are recognized when due from policyholders, with reserves for future benefits established from such premiums. Such reserves have been computed by the net level premium method based upon estimated future investment yields, withdrawals, mortality and other assumptions which were appropriate at the time the policies were issued. The costs of acquiring new business have been deferred and are being amortized over the premium paying periods in proportion to premium revenue recognized.

Federal income tax regulations applicable to life insurance companies permit the deduction for tax purposes of substantial costs (primarily policy acquisition expenses) which, for accounting purposes, are capitalized and amortized over the lives of the policies. In accordance with the audit guide

for stock life insurance companies, which does not require that deferred taxes be provided for the current effect of timing differences if circumstances indicate that there will not be a reversal of such current tax effect in the future, certain life insurance subsidiaries have not provided deferred taxes on such timing differences in 1973. Deferred income taxes, previously provided before the audit guide became effective will be included in income, as the timing differences to which the deferred income taxes relate, reverse with no tax effect. The 1973 reversal of deferred taxes amounted to \$1,606,000.

IV DIVIDEND LIMITATION

In connection with the affiliation with ITT in 1970, the Certificate of Incorporation of The Hartford was amended to provide that, for a period of ten years, The Hartford will not in any year transmit funds to ITT in excess of earnings of The Hartford for the year as reported on the basis of generally accepted accounting principles.



Reconciliation to Statutory Basis

A reconciliation of the 1973 and 1972 Consolidated Net Income and Stockholders' Equity reported herein and as reported on the statutory basis to state regulatory authorities follows:

NET INCOME	1973	1972
<i>Dollar figures in thousands</i>	Consolidated	Consolidated
Net Income as Reported on Page 11	\$124,809	\$126,392
Prepaid Acquisition Expense (a)	(13,690)	(20,270)
Deferred Income Taxes (b)	8,620	20,234
Past Service Pension Cost (c)	5,158	5,287
Combined Life	(10,950)	(6,882)
Other	(258)	555
Net Income—Statutory	\$113,689	\$125,316
STOCKHOLDERS' EQUITY		
<i>Dollar figures in thousands</i>		
Stockholders' Equity as Reported on Page 10	\$749,285	\$673,475
Prepaid Acquisition Expense (a)	(212,838)	(199,148)
Deferred Income Taxes (b)	112,926	104,306
Non-admitted Assets and Statutory Reserves (a)	(79,208)	(57,793)
Revaluation of Stocks and Bonds (a)	80,178	363,869
Combined Life	(31,887)	(16,222)
Other	(1,317)	(1,878)
Stockholders' Equity—Statutory	\$617,139	\$866,609

(a) See Note I (a)

(b) See Note II

(c) Past service pension cost is charged to surplus in statements filed with regulatory authorities.

Auditors' Report

To the Stockholders and Board of Directors of
Hartford Fire Insurance Company:

We have examined the consolidated balance sheets of Hartford Fire Insurance Company (a Connecticut corporation and a subsidiary of International Telephone and Telegraph Corporation, and subsidiaries consolidated as of December 31, 1973 and 1972 and the related consolidated statements of income, retained earnings, capital surplus, and source and application of funds for the years then ended (as set forth on pages 10 through 15 of this report). Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements (as set forth on pages 10 through 15 of this report) present fairly the financial position of Hartford Fire Insurance Company and subsidiaries consolidated as of December 31, 1973 and 1972, and the results of their operations and source and application of funds for the years then ended, in conformity with generally accepted accounting principles, consistently applied during the periods.

Hartford, Connecticut,
March 8, 1974

Arthur Andersen & Co.

Combined Life - Summary of Financial Information

Dollar figures in thousands

	December 31, 1973	December 31, 1972
Assets		
Bonds, at amortized cost, (Market Value \$236,339 and \$184,075)	\$251,911	\$194,339
Stocks, at cost, (Market Value \$18,854 and \$15,519)	21,636	13,773
Real Estate and Mortgages	72,810	73,614
Cash	326	358
Premiums Due and Other Assets	48,178	40,434
Prepaid Acquisition Expense	46,439	36,409
Separate Account Assets	80,506	76,167
Total Assets	\$521,806	\$435,094
Liabilities		
Life Policy and Claim Reserves	\$320,709	\$256,608
Accounts Payable and Accrued Expenses	28,571	20,934
Deferred Income Taxes	15,879	15,973
Separate Account Liabilities	80,506	76,167
Total Liabilities	445,665	369,682
Stockholders' Equity		
Capital Stock	7,000	7,000
Capital Surplus	20,445	20,445
Retained Earnings	48,696	37,967
Total Stockholders' Equity	76,141	65,412
Total Liabilities and Stockholders' Equity	\$521,806	\$435,094

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Dollar figures in thousands

	1973	1972
Insurance Premiums and Other Considerations	\$239,884	\$189,111
Investment Income (Excluding Realized Investment Gains)	19,325	14,313
Insurance Benefits and Expenses	(262,475)	(206,467)
Prepaid Acquisition Expense	10,030	9,648
Other Income and Adjustments	2,037	957
Operating Income Before Income Tax	8,801	7,562
Federal and Foreign Income Tax	(1,933)	1,004
Net Operating Income	10,734	6,558
Net Realized Investment Gains (After Tax)	(5)	20
Net Income	\$ 10,729	\$ 6,578



HARTFORD FIRE INSURANCE COMPANY / HARTFORD ACCIDENT AND INDEMNITY COMPANY

DIRECTORS

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Chairman
The Hartford

Eugene R. Black
Former President
World Bank

Pomeroy Day
Chairman of the Executive Committee
The Connecticut Bank and Trust Company

Raymond H. Deck
Executive Vice President
The Hartford

Francis J. Dunleavy
President and Chief Operating Officer
International Telephone and Telegraph Corporation

Barnard Flaxman
Former Chairman of Finance Committee
The Hartford

James W. Foley
Former Vice Chairman of the Board
Texaco, Inc.

Harold S. Geneen
Chairman and Chief Executive
International Telephone and Telegraph Corporation

Jonathan Goodwin
Assistant Vice President
The Connecticut Bank and Trust Company

Isaac B. Grainger
Former President
Chemical Bank

William M. Griffin
Executive Vice President
The Hartford

Manning W. Heard
Former Chairman
The Hartford

Leo Model
Chairman of the Board and Chief Executive Officer
Model, Roland & Co., Inc.

Herbert P. Schoen
President and Chief Executive Officer
The Hartford

DeRoy C. Thomas
Executive Vice President
The Hartford

Mark C. Wheeler
Chairman
New England Merchants National Bank

OFFICERS

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Chairman

Herbert P. Schoen*
President and Chief Executive Officer

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De Roy C. Thomas*

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John G. Power
Michael Schweihs
Robert L. Snediker
Ronald M. Streeter
William H. Thompson (Comptroller)
James F. Wyatt
R. E. Young (Secretary & Treasurer)

*Office of the President—Operations

Directors and Officers

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Hartford Life Insurance Co.

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The Hartford

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Hartford Life Insurance Company

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Vice President
Hartford Life Insurance Company

Manning W. Heard
Former Chairman
The Hartford

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Hartford Life Insurance Company

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President
Baystate Corporation

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Chairman
New England Merchants National Bank

Harry V. Williams
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The Hartford

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Executive Vice President and Chief Operating Officer

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Lawrence J. Rupp (Actuary)
John S. Ryan
Warren V. Smith
Donald R. Sondergeld (Actuary)

HARTFORD VARIABLE ANNUITY LIFE INSURANCE COMPANY

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